CEFC
CLEAN ENERGY FINANCE CORPORATION

Submission by the Clean Energy Finance Corporation to the Productivity Commission's Review into Public Infrastructure– February 2014

Content

1. Introduction

About this submission

This submission seeks to highlight some of the lessons learned by the CEFC, developed from its participation as a government lender and catalyst for private sector energy project investments in Australia. The CEFC offers these for consideration in the context of operating at the interface of government and finance markets, in assessing ways to attract private sector capital and lower the costs of provision of public infrastructure. The cost-effective provision of infrastructure benefits all.

Given that the Productivity Commission's inquiry is now well advanced, this submission is restricted to offering some background about the CEFC, making some observations about the utility of developing a CEFC-like model to overcome financing barriers to the progression of public infrastructure in identified areas. We provide here a few salient observations in relation to mixed government/private sector financing that may be of use to the inquiry.

The 2012 Energy White Paper estimated Australia's energy investment requirements of $240 billion through to 2030 for domestic energy generation, transmission, distribution and gas pipelines. Even allowing for this amount to be substantially lower, it remains a fact that that there is significant investment required to ensure that Australia has the energy infrastructure required to meet changing needs and technologies to support the nation's growth and development.

Private capital will be essential to fund this investment. In the energy sector, whilst funds are relatively readily available for highly rated low risk investments, it is innovative projects and investments in market take-up of newer technologies, including for energy efficiency, which may struggle to find competitively priced capital.

About the CEFC

The CEFC was established in 2012 to address financing barriers and encourage private sector participation to support the transition of energy generation to cleaner technologies, distributed energy, and the adoption of energy efficiency across the economy. Significant innovation and adaption by the Australian finance sector is required to achieve this outcome. In pursuing this, the CEFC has stimulated co-financier's appetite and risk understanding, utilised financial aggregation, and attracted new off-shore investors to catalyse investment activity. In addition, the CEFC is helping investment in new areas, using specialist skills which are not readily available in the Australian market.

The CEFC has proven to be an effective government tool operating within the market to mobilise private sector skills, discipline and capital, to achieve a policy outcome. The CEFC and its co-financiers are proving successful in creating jobs, growing Australian businesses, and increasing the deployment of low carbon and renewable technologies across the nation. The CEFC plays a supportive role in the finance market for investment into most energy technologies, helping lower the carbon intensity of the current energy mix.

The CEFC is financing projects that build capacity in the clean energy sector, providing investment opportunities for sub-contractors and others along the procurement supply chain for the value-added products and services. It is meeting a financing gap for investment and growth by the SME sector, the 'engine room' of the economy, as both suppliers and adopters of new technologies. SMEs are least able to take the risk of investing the up-front capital associated with project development and equipment costs.

2. Scope of submission

KEY POINTS:

- **The CEFC is not commenting on all issues covered by the Terms of Reference to this Inquiry, limiting its comment relating to its own scope of operations**

The CEFC is responding to the following discussion points in the inquiry's Issues Paper:

1. *Does the proposed definition of public infrastructure capture all forms of infrastructure that should be considered by this inquiry?*
2. *What types of nationally significant economic infrastructure should be within the scope of this inquiry?*
3. *The rationale, role and objectives of alternative funding and financing mechanisms, including:*
    - *the full range of costs and benefits of different models*
    - *the issues and costs associated with the allocation of project risks, availability of finance, contracting arrangements and delivery models for construction projects*
    - *the disincentives to private sector investment*
    - *broad principles for the use of these funding and financing mechanisms*
4. *Consider the financial risks to the Commonwealth posed by alternative funding and financing mechanisms, as well as their possible impact on the Budget and fiscal consolidation goals.*
5. *Provide advice on ways to improve decision-making and implementation processes to facilitate a reduction in the cost of public infrastructure projects, including in relation to:*
    - *measures to improve flexibility and reduce complexity, costs and time for all parties*
6. *Comment on other relevant policy measures, including any non-legislative approaches, which would help ensure effective delivery of infrastructure services over both the short and long term.*

Within the above discussion points, this submission focuses solely on matters relevant to the CEFC and its unique private and government sector experience, incorporating the organisation's commercial market insight and public policy outcomes and accountability.

This submission should also be read in conjunction with:

- the CEFC submission to the Australian Government's '*Emissions Reduction Fund Terms of Reference'*[1]
- the CEFC submission in relation to the *Senate Environment and Communications Legislation Committee Inquiry into the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and related Bills*[2] and
- the CEFC submission to the *Senate Environment and Communications References Committee Inquiry into the Government's Direct Action Plan*[3]

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[1] CEFC (2013) *Submission by the Clean Energy Finance Corporation to the Australian Government's 'Emissions Reduction Fund Terms of Reference'*, available at <http://www.cleanenergyfinancecorp.com.au/media/65401/cefc_submission_erf_terms_of_reference.pdf>

[2] CEFC (2013) *Submission by the Clean Energy Finance Corporation to the Environment and Communications Legislation Committee Inquiry into the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013 and related bills* available at <http://www.cleanenergyfinancecorp.com.au/media/65406/cefc-submission-to-inquiry-into-the-clean-energy-legislation-carbon-tax-repeal-bill-2013-and-related-bills.pdf >

[3] CEFC (2014) *Submission by the Clean Energy Finance Corporation to the Environment and Communications References Committee Inquiry into the Government's Direct Action Plan* available at https://www.cleanenergyfinancecorp.com.au/media/76195/cefc-submission-to-the-environment-and-communications-references-committee-inquiry-into-the-direct-action-plan.pdf

3. Definitions of Public Infrastructure

Issue
Does the proposed definition of public infrastructure capture all forms of infrastructure that should be considered by this inquiry?

What types of nationally significant economic infrastructure should be within the scope of this inquiry?

KEY POINTS:

- **Energy infrastructure fits the definition of 'public' infrastructure**
- **Regulatory and policy uncertainty in relation to the energy sector is a major influence on the cost of energy, investment in new energy infrastructure and the sector's growth. This risks driving up the cost of capital and/or may see some investors abandon the sector in favour of other sectors less exposed to a changing policy environment.**
- **The CEFC is a market-focused initiative that has demonstrated it can enhance growth and investment in clean energy sector infrastructure. By working with private sector co-financings, the CEFC is cost-effectively progressing and leveraging investment in the sector.**

Energy infrastructure fits the definition of 'public' infrastructure in so far as that it encompasses infrastructure where government has a primary role and responsibility for deciding on whether infrastructure is provided, and/or the source of the revenue streams to pay for the infrastructure.[4]

Large capital projects in Australia, particularly those which are regulatory-dependent or dependent on user patronage, have always faced significant financing challenges. Although aspects of civic infrastructure provision and operation have been privatised, even today, large projects such as water treatment plants and toll roads seek public sector support to reduce risks and uncertainties in order to secure adequate capital and reasonable cost for projects to proceed.

The infrastructure financing challenge is real and growing. In the energy sector alone, the 2012 Energy White Paper estimated Australia's energy investment requirements of $240 billion through to 2030 for domestic energy generation, transmission, distribution, and gas pipelines.

A multiple of this amount is needed once other sectors like roads, hospitals, universities, railways and ports are included. Even allowing for this amount to be substantially lower, it remains a fact that there is significant investment required to ensure that Australia has the infrastructure required to meet changing needs and technologies to support the nation's growth and development. Private capital will be essential to fund this investment.

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[4] *The Infrastructure Australia Act 2008 (Cwlth) defines nationally significant infrastructure to include energy, transport, communications and water infrastructure in which investment or further investment will materially improve national productivity. Infrastructure Australia has described nationally significant infrastructure as the structural elements of the economy that provide essential services to industry and households. It has also noted that nationally significant infrastructure can be that which is highly important to a sense of national identity or external affairs.*

Like other forms of public infrastructure, the energy sector has been undergoing fundamental change in recent times. Governments have variously pursued different models. Australia's mix of state and private ownership of energy assets has had an impact on the cost structure of energy and has been subject to changing priorities and regulatory frameworks. When overlaid by the changing carbon and renewable energy policy frameworks, the situation presents a complex picture for both domestic and foreign sources investors.

Without government initiatives and direction, investment will continue into an ageing energy and electricity network infrastructure. This inhibits adaptation required by Australia's changing energy mix and technologies. Ultimately, this will crowd out and diminish future business opportunities for clean energy technologies, adding to the economic costs of developing and deploying these technologies.

4. Funding mechanisms

Issue
What alternative funding mechanisms for public infrastructure should be considered in this inquiry? What are the strengths and weaknesses of each, trade-offs to consider, and what principles should guide their use?

What are the interrelationships between project-specific risks (such as construction or demand risk) and funding and financing decisions? How are these inter-relationships different for greenfield development as opposed to projects that augment existing facilities or networks?

KEY POINTS:

- **Appropriately funded as a government investment, rather than an expense, the CEFC operates within the market as a financier leveraging participation of other financiers.**
- **The CEFC's role in mobilising private sector capital, including foreign financing institutions, to leverage the value and size of investments is helping build industry capacity and skills base.**
- **Most of the projects financed by the CEFC involve complex project financing arrangements. The CEFC has participated in these transactions as a specialist commercial lender.**
- **The CEFC is equity funded by the Australian Government and it has no liquidity risk, enabling it to accept financing arrangements that involve longer-term duration and critical project investment.**

The main issues in infrastructure financing are:

- Increasing demand on Australian governments to fund infrastructure at a time of deficits and revenue shortfalls
- A need for a clear Australian Government blueprint and direction for infrastructure in Australia
- Overcoming barriers to private sector investment in public infrastructure; and
- The creation of a competitive market to fund infrastructure - to realise this government blueprint at minimal drain on government revenues and risk to the Commonwealth, requires disbursement of knowledge and a broad understanding of risk, attracting new entrants and growing the market.

A number of alternatives to attracting private sector capital and overcoming these barriers have been in public discussion. A focused Infrastructure Bank with a tightly defined mandate can be an effective tool in addressing these issues.

Infrastructure Bank

It has been suggested by a number of public sources that Australia could create another pool of capital for investment in infrastructure by establishing an Infrastructure Bank.

The real advantage of an Infrastructure Bank, as the CEFC has experienced, is capacity to grow the market through dispersion of knowledge, understanding of risk, and attracting new entrants to the market. The Infrastructure Bank would grow the market using public capital to leverage private sector capital. Infrastructure Banks are an internationally-proven tool that have operated at state level in the United States, with a National Infrastructure Bank now proposed there, and have operated in countries as diverse as Germany and Brazil, to help get nationally significant infrastructure projects off the ground.

If the Australian Government was to use the Infrastructure Bank model, such an institution would need to have a clearly defined charter, well-structured investment parameters, and make its decisions independently of government. A tight charter and a commercial board is required to provide the necessary high standard of governance. If it is established on this basis and operates with commercial disciplines, it should be capable of investing profitably and delivering on its mission at minimum cost to the government.

Operating commercially, such an Infrastructure Bank would be financing infrastructure, not funding it. It is the government's role to provide the blueprint and where necessary, make the funding decision, as well as determining the most appropriate mechanisms for achieving this; whether through grants, tax concessions, levies or user charges. The Infrastructure Bank role would be to apply commercial expertise, relationships, experience and knowledge to leverage private sector capital.

There are a number of reasons why an Infrastructure Bank model working within the private market is effective:

- It brings capital with unique properties of term and price. This can work to overcome financing barriers and contain costs, necessary for infrastructure financing to proceed.

- Infrastructure financing benefits from a deep and diverse market and fluidity of tranches of finance between senior debt, sub-debt and equity. The scale of Australia's limited market limits the depth and variety of sources of available capital, increasing costs and reducing flexibility.

- Other lenders in the junior debt and sub-debt lending areas have very high hurdle rates. Accordingly, they typically provide mezzanine finance in private equity transactions - not infrastructure transactions, yet it is highly likely that infrastructure projects deserve a lower rate as they have less risk than corporate private equity transactions.

- A specialist government funded Infrastructure Bank can help overcome barriers by structuring its involvement to create holistic solutions at all levels of the capital structure. Because infrastructure financing is typically a project finance transaction, the risk assessment will be performed once, rather than multiple times.

- A specialist government Infrastructure Bank would i) not be a competitor and more importantly ii) operate alongside the private sector as a competitor but as facilitator and complementary funder. A government institution is not in business to secure clients or build exclusive relationships. The priority is instead to ensure successful transactions which encourage participation, encourage the market, improve risk understanding and progressing priority projects under the blueprint established by Government. The Infrastructure Bank's presence in the marketplace would help ensure more competitive and efficient pricing, with more projects being progressed and completed.

The Infrastructure Bank's Role in Addressing Market Barriers

On the basis of the experience gained through the CEFC, the attributes for success of an Infrastructure Bank include:

1. A fully commercial Board with independent decision-making, operating under the discipline of a tightly defined charter and adopting commercial risk management approaches

2. A tight charter in order to avoid mission creep and to be a specialist financier to the sector. Acting commercially, it is critical to the success of any Infrastructure Bank that its charter ensures that it does not become the vehicle with which the market looks to take on the bulk of risk at a subsidised rate.

3. Having a clearly defined benchmark rate of return with an objective of financial self-sufficiency.

4. A directive to leverage private sector co-financiers to participate.

5. Having the ability to provide concessionality on least generous terms, to allow a project to proceed where it is demonstrated that sufficient public benefit externalities warrant such concessionality

6. Being equity funded by the Federal Government, thus avoiding liquidity risk. This enables financing arrangements that involve longer duration risk. This is especially valuable to assist projects manage refinancing risks and structure debt to manage ramp up risks.

7. Having the absence of balance sheet constraints that traditional financers face. This enables provision of committed financing solutions early in project development, thus encouraging other financiers to join.

8. Being, (as the CEFC is), a non-taxpayer. This facilitates liquidity in the market, allowing the Infrastructure Bank to repackage and sell income streams to different investors without creating adverse tax outcome.

9. Capacity to take any type of financing position, whether senior debt, or a longer term, or with deferred amortisation. There are many ways financing support can be provided by an Infrastructure Bank to finance large-scale capital projects. It could invest in sub-debt with a variety of profiles, or carry equity warrants to assist a project in meeting various debt ratio covenants that other senior lenders require. It might take preference shares, or normal equity, or convertible securities in projects. The selection of the right option will depend on the risk assessment and the need for a financing solution where the traditional financial markets won't, or can't economically provide it. The CEFC has found the ability to play right across the capital structure is valuable to effectiveness.

10. A clear preference for investment, rather than guarantees. Investment is prudent, transparent, efficient and effective for the government. It avoids the added cost of bank intermediation. The direct investment minimises the cost to the project. If a guarantee is provided, rather than direct investment of funds, the financiers against this guarantee charges for the use of their balance sheet, which adds to the cost for the funds recipient. The direct investment retains the flexibility for government of transferability of the commitment. Loans - even when highly structured - can easily be repackaged and sold into the financial markets. This means that after a project is completed and derisked, the Infrastructure Bank

could sell part of, or the entire loan, on to other commercial lenders and ultimately, superannuation funds. All of this portfolio flexibility is lost if guarantees are used; using guarantees increases risk and reduces flexibility, and is a suboptimal instrument for support.

11. Clearly defined size and KPIs set around the function of creating competition in the market, to realise the government's infrastructure blueprint through the disbursement of knowledge, broadening the understanding of risk, and attracting new entrants to the market.

The case study of the CEFC

The CEFC has demonstrated success in this role, collaboratively bringing industry, the finance sector and government together. By working with private sector co-financiers, the CEFC has multiplied investment in the sector.

Through investing $536 million of CEFC funds and attracting $1.55 billion in private sector co-financing, the CEFC had facilitated over $2.2 billion in projects as of August 2013.

As a measure of its effectiveness in fostering private sector energy industry investment, the CEFC investments to date have been able to mobilise private sector funds of $2.90 for each $1 that the CEFC invests.

The CEFC's convening power exists because it has investment funds enabling it to increase industry investment, help build industry critical mass, and foster knowledge sharing within the energy sector.

The CEFC has assisted the development of expertise and shared learnings across the finance sector to increase the nation's capacity to fund clean energy projects.

The CEFC has provided financing support for large-scale capital projects in many ways. The CEFC has the flexibility to offer concessional finance if sufficient public benefit externalities warranted this.

The CEFC has provided:

- An early sounding board for developers and proponents
- A unique inside/outside government interface to determine and optimise outcomes, e.g. if a project required government support beyond the provision of commercially priced structured finance, CEFC has been able to facilitate and provide insight to the government decision-makers to contribute to the design of optimal solutions.
- The capacity to provide concessional financing which requires a disciplined decision-making framework, enabling funding on 'least generous terms'. The CEFC avoids providing loans that would generate a return below its notional cost of funds.

5. Barriers to private sector involvement and financing

Is there any evidence of government policies or regulation impeding private sector participation in the provision and financing of infrastructure projects?

What are the impediments to greater private sector involvement and financing of public infrastructure by institutional investors, such as superannuation or pension funds (for example, taxation arrangements)? What is the scope for superannuation funds to benefit from financing more public infrastructure, and the reasons why they are not already doing so?

The Funding Environment for Energy Infrastructure

As an essential service, much of the electricity sector in particular, involves state-controlled assets. The 'electricity market' is still largely a creature of government and displays various non-market elements such as monopoly providers, controlled pricing, and state controlled production.

Regulatory uncertainty and uncertainty surrounding the policy agenda in relation to the Australian energy sector is a major influence on the cost of energy, the provision of necessary infrastructure, and the sector's growth and investment attractiveness.

At the same time, technological and demand change in the energy sector provides a number of challenges to the sector and to the economy. Australia needs to deal with these rapid changes in order to efficiently manage these transitions and minimise adverse impacts.

Currently, there is much fluidity in the policy framework, with many reviews underway to policies which have fundamental influence on the shape of Australia's energy mix and costs into the future.

Absence of certainty has slowed investment conditions in the renewable energy and energy efficiency sectors of the economy as the market assesses their potential impact. Continuing uncertainty is driving up the cost of capital due to heightened perceived risks, and may see some investors abandon the sector in favour of other sectors less exposed to a changing policy environment. Investors facing or experiencing losses from a changing regulatory environment will be reluctant to invest again, and will likely only do so where a higher capital return is available to compensate them for the heightened regulatory risk profile.

Collectively, governments at state and federal levels have a major role to play in ensuring that policy certainty is provided to create an environment that is conducive to growth, and attractive to private sector investment at the lowest cost.

Investors in the renewable energy sector have experienced significant sovereign risk losses in a number of southern European countries. This experience has heightened investor sensitivity to policy risk and policy uncertainty. Australia is currently not grouped with such countries and any such groupings should be avoided.

Supply Chain Impacts

Australian companies and subcontractors seeking to provide technologies to Australian energy infrastructure projects often face competitive disadvantages. Without a conducive financing market and support, Australian firms often find it challenging to secure domestic projects, let alone export opportunities. A precursor to export success typically requires that the technology has been deployed domestically. Foreign suppliers of

competitive technology are often advantaged through the provision of long-term, low-cost finance from government-backed institutions that Australian technology providers cannot access. This disadvantages the Australian technology sector significantly.

Government organisations (similar to the CEFC) have proved a valuable tool to cost-effectively progress energy infrastructure, energy efficiency and renewable energy investments, and now operate in the United States of America, the United Kingdom, Europe, Asia, Latin America and the Middle East. Examples include the Green Investment Bank, established as a bipartisan initiative in the United Kingdom, and KfW in Germany.

Bloomberg New Energy Finance[5] estimated that such institutions provided US$59 billion of finance to renewable energy in 2012 and US$109 billion into clean energy, thus successfully broadening the base of their domestic clean energy industries and making these institutions critical players in the energy infrastructure financing landscapes, and major financiers of their own manufacturers.[6]

The CEFC has drawn on the experiences of these institutions and seeks to capture similar benefits for Australia. Already, large-scale projects being financed by the CEFC develop Australian Industry Participation Plans (AIPPs), which is helping to open up supply opportunities to Australian suppliers.

Role of Superannuation Funds

Superannuation funds invest for the benefit of their members and aim to earn a return commensurate with their assessment of risk.

There is an appetite for these funds to broaden their asset classes and a need for infrastructure projects to expand their access to these funds.

The investment by superannuation funds into infrastructure is inhibited by

a) The scale of individual investments being too small
b) The absence of liquidity in these investments
c) An understanding of the project stages and nature of the risks

A government-owned Infrastructure Bank can work to overcome these inhibitors. For example, the CEFC is working with a group of superannuation funds to create a pooled fund to build the asset class of emissions reduction investments; aggregating small-scale investments in the sector to create scale and risk spread for securitization vehicles or for direct investment by these superannuation funds. These activities develop liquidity and facilitate the access path to superannuation funds for infrastructure investments. The CEFC has been seen by superannuation funds as a trusted partner. It has gained the interest of the superannuation funds by having patient capital, and a desire to build a long-term market, develop liquidity and facilitate financial aggregation.

Stamp duty

Stamp duty - applied on the value of the assets, not the equity - has a significant impact on the attractiveness of infrastructure investments.

Whilst the rapid transfer and shuffling of ownership of strategic long-term assets is not necessarily efficient or desirable, there are times where a transfer should be encouraged.

[5] Bloomberg New Energy Finance

[6] CERES, Investing in the Clean Trillion: Closing the Clean Energy Investment Gap 2014, 37; and BNEF, 'Development Banks—breaking the $100bn-a-year barrier,' 6.

Certain investors are better equipped to invest during construction and development, while there are other investors with characteristics who are better suited to owning assets when the asset is stabilised.

Stamp duty at this point reduces the incentive for the assets to move from higher-risk owner to lower-risk owner. This delay reduces optional capital allocation and acts as a clear impediment to greater depth and liquidity in the Australian market.

6. About the CEFC

KEY POINTS

- **The CEFC is a working example of Government operating within the market to progress an investment blueprint.**
- **The CEFC is an Australian Government owned fund for the purpose of overcoming barriers to increased capital flows to the clean energy sector.**
- **It is already covering costs and catalysing investment into the sector of its focus.**

The CEFC is a legislated fund dedicated to working with the private sector to invest in clean energy projects with the mission to accelerate Australia's transformation towards a more competitive economy in a carbon constrained world, by acting as a catalyst to increase investment in emissions reduction.

The CEFC has significant infrastructure expertise within the organisation. The CEFC is governed by a fully commercial independent Board, comprising the Chair, Jillian Broadbent AO, and six other members with diverse business and government experience and an in-depth understanding of financing and energy markets. The Board's decision-making is independent.

The Corporation increases the flow of funding to the commercialisation and deployment of Australian-based renewable energy, low emissions and energy efficiency technologies ('emissions reduction projects') and infrastructure by mobilising public and private sector capital and skills, so preparing and positioning the Australian economy and industry for a carbon-constrained world.

The CEFC's role in financing new energy infrastructure

Most of the projects financed by the CEFC involve complex project financing arrangements. The CEFC has participated in these transactions as a specialist commercial lender.

The CEFC has the unique attributes essential for infrastructure finance.

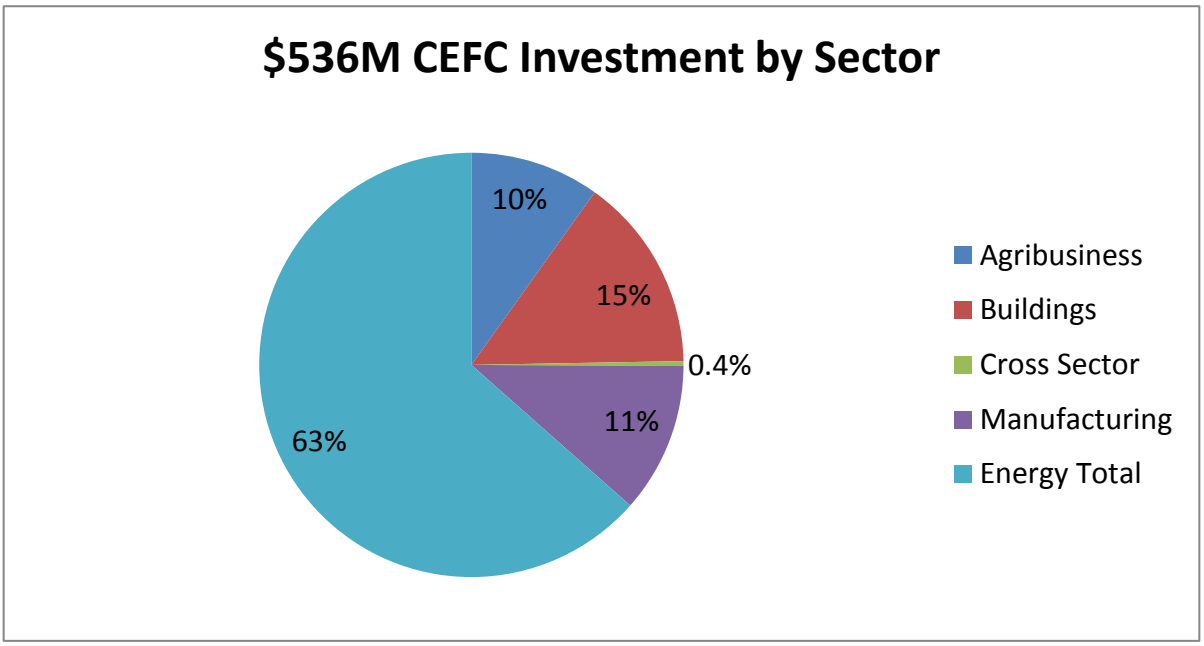
The CEFC is equity funded by the Federal Government. Unlike other financial institutions, it has no liquidity risk. This enables the CEFC to consider financing arrangements that involve longer-term duration risk.

The CEFC doesn't have the balance sheet constraints that traditional financers face. This enables the CEFC to provide a committed financing solution early in the projects development as a way to encourage other financiers to join.

CEFC Portfolio

The CEFC portfolio investments are distributed across the energy, manufacturing, agribusiness, and buildings sectors (Figure 1 and Table 1 following). In addition, the CEFC also has a strong forward pipeline of viable investment opportunities in energy efficiency and emissions reduction.

Figure 1: CEFC investment portfolio by sector (20 August 2013)



By working with private sector co-financiers, the CEFC multiplies the total amount of funding available for investment. Through investing $536 million of CEFC funds and attracting $1.55 billion in private sector co-financing, by August 2013, the CEFC had facilitated over $2.2 billion in projects, delivered approximately 4 million tonnes of abatement, and achieved it at negative cost (i.e. net return or benefit) of $2.40 per tonne of abatement.

Table 1: The CEFC's investment impact to 20 August 2013

	Generation Capacity Installed (MW)	**Annual tCO2e abated ('000)**	**Average Investor (i.e. CEFC) Cost $/tCO2e**	**Average Cost to Govt $/tCO2e**
Totals	**500**	**3,900**	**-$2.40**	**$0.20**

Notes & Key:
1. **Negative cost indicates a positive return to investor/government**
2. 'Nameplate' or maximum operating output of installed generation
3. Average Investor Cost = cost to CEFC as investor (including Government cost of capital and operational cost)
4. Average Cost to Government = cost to government as funder (CEFC cost + Federal Grants received)
5. Includes an estimate of effect of unapplied demand aggregation financing programs

CEFC Operations

In its relatively short period of operation, the CEFC has invested across a broad base of projects boosting investment in the clean energy sector, which are expanding Australia's emission reduction options and helping to lower their cost.

The CEFC operates as a sector-focused financial institution that provides market based support and long-term financing. The CEFC is a professional and functional operation with a flexible, high performing team of 50 staff with extensive experience in investment

decision-making, portfolio management, finance, corporate treasury, legal, risk management, governance, corporate affairs, human resources, marketing and communications, and government.

The CEFC has added to the expertise and shared learning across the finance sector to build Australia's capacity to fund clean energy projects. The CEFC's legislative framework, funding and commercial approach is directed for a public policy outcome. This enables it to invest more time, effort and resources in transactions which have the public policy benefits it is charged to deliver. Such transactions might take more than a year to reach financial close because, for example, they are small, yet still complex; or, are geographically remote and involve special challenges like transmission issues; or, are first in-kind technology that involves a range of skill sets that are not easily assembled in larger financial institutions.

The CEFC makes its investment decisions independently, based on rigorous consideration of the commercial business case, detailed due diligence and risk assessment on all projects, ensuring only those projects likely to deliver a return on investment in both an economic and an emissions reduction sense are supported with CEFC funding.

To date, the CEFC investment portfolio has been successful in progressing projects, growing Australian businesses and creating jobs, and increasing the deployment of low carbon and renewable technologies across the nation.

The CEFC has demonstrated that it represents a positive cost-benefit outcome for Australian taxpayers, businesses, the economy and the environment. Australia has made a valuable investment in establishing the CEFC as a flexible and low cost policy tool. Through combining market know-how in both finance and energy technology, including the staff and assets of Low Carbon Australia, the CEFC has a proven capacity to mobilise private capital to achieve emissions reduction.

Such a model of private sector skills and disciplines can be useful to progress Australia's infrastructure ambitions and catalyse the participation of banks and superannuation funds, both domestic and offshore, in doing so.

Current Status

The Australian Government has indicated its intent to abolish the CEFC, introducing a *Clean Energy Finance Corporation (Abolition) Bill 2013* into the Parliament. This Bill passed the House of Representatives but was defeated in the Senate in the December 2013 sittings.

As a statutory authority, the CEFC has cooperated with the Australian Government fully in provision of information and in making preparations necessary for such a shutdown. As required by its statutory mandate, so long as the law establishing the Corporation and its functions remain in effect, the CEFC will continue to perform its functions and operate in accordance with the law.

The CEFC's submissions to the *Senate Environment and Communications Legislation Committee Inquiry into the Clean Energy Legislation (Carbon Tax Repeal) Bill 2013* and to the *Senate Environment and Communications References Committee Inquiry into the Government's Direct Action Plan* have addressed the market failures which will remain the focus of the work of the CEFC.

[ENDS]